

Message Text

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FOLLOWING REPEATS STATE 047267 ACTION RIO DE JANEIRO MAR 3RD
QUOTE

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SUBJECT: BALANCE OF PAYMENTS EFFECTS OF US FOREIGN DIRECT
INVESTMENT IN LATIN AMERICA

REF: RUBIN-SAWYIER TELCON:FEBRUARY 28

FOR SEYMOUR RUBIN

1. BALANCE OF PAYMENTS IMPACT OF US FOREIGN DIRECT INVEST-
MENT (FDI) IN LATIN AMERICA IS FREQUENTLY DISCUSSED IN
SIMPLISTIC AND INACCURATE TERMS BY COMPARING ANNUAL
INFLOWS OF PRIVATE FOREIGN INVESTMENT WITH THE OUTFLOW
OF REMITTANCES, INCLUDING FEES AND ROYALTIES. AS FORMER
DEPUTY ASSISTANT SECRETARY OF STATE SIDNEY WEINTRAUB
(NOW ASSISTANT ADMINISTRATOR AID) SAID IN A 1972 SPEECH
TO THE NATIONAL FOREIGN TRADE COUNCIL:

2. QUOTE: I DO NOT THINK THIS CRITICISM DESERVES
MUCH ATTENTION, SINCE IT DELIBERATELY OMITTS DEALING WITH
EXPORTS GENERATED AND IMPORTS AVOIDED DUE TO INVESTMENT.

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IT OMITTS ALSO A GOOD MANY OTHER ASPECTS OF INVESTMENT

UNRELATED TO THE BALANCE OF PAYMENTS, SUCH AS TECHNOLOGY AND MANAGERIAL TRANSFERS (WITH RESULTING IMPACT ON PRODUCTIVITY), EMPLOYMENT-CREATING EFFECTS, DOMESTIC

PURCHASING POWER PRODUCED, ALL OF WHICH DO AFFECT INCOMES AND WELFARE. OBVIOUSLY AN INVESTOR SEEKS TO MAKE A PROFIT, AND OBVIOUSLY OVER TIME HE EXPECTS THIS STREAM PROFITS TO BE ARITHMETICALLY GREATER THAN THE INITIAL INVESTMENT. WHEN HE REINVESTS, HE EXPECTS THIS TO YIELD PROFITS OVER TIME. UNQUOTE.

3. THE MISLEADING DISPARITY SHOWN BY A SUPERFICIAL COM-

PARISON OF CAPITAL INFLOWS VERSUS REMITTANCES IS SOME TIMES EXAGGERATED BY OMISSION FROM THE "INFLOWS" FIGURE OF ALL REINVESTED LOCAL EARNINGS, ON THE GROUNDS THAT SUCH EARNINGS MERELY INCREASE THE BASE FOR FUTURE REMITTANCES. THIS TREATMENT OF REINVESTED EARNINGS IS ALSO UNSATISFACTORY. TO THE EXTENT REINVESTED EARNINGS SUBSTITUTE FOR CAPITAL WHICH WOULD OTHERWISE HAVE TO BE IMPORTED, THEY HAVE THE SAME BALANCE OF PAYMENTS EFFECT AS AN ACTUAL INFLOW. AS SHOWN IN TABLE II OF THIS TELEGRAM INCLUSION OF REINVESTED EARNINGS HAS THE EFFECT OF REDUCING EVEN THE MISLEADING, SUPERFICIAL DISPARITY BETWEEN INFLOWS AND OUTFLOWS NOTED ABOVE.

4. ACCURATE EMPIRICAL EVIDENCE ON TOTAL BALANCE OF PAYMENTS IMPACT IS IN FACT VERY DIFFICULT TO OBTAIN. MUCH DEPENDS ON THE ASSUMPTIONS MADE ABOUT WHAT WOULD HAVE

TAKEN PLACE IN THE ABSENCE OF THE FOREIGN INVESTMENT. THE ASSUMPTIONS MADE IN THIS REGARD ARE PARTICULARLY IMPORTANT IN DETERMINING IMPACT OF FDI ON IMPORT SUBSTITUTION AND

EXPORT CREATION. AN AUGUST 17, 1973 REPORT TO THE COUNCIL OF THE AMERICAS, ENTITLED "THE BALANCE OF PAYMENTS EFFECTS OF US DIRECT INVESTMENTS IN LATIN AMERICA," INDICATED THAT FDI BY U.S. FIRMS CAUSED A MARKED INCREASE IN THE "NET IMPORT-PAYMENT CAPACITY" OF LATIN AMERICA. THE RESULTS OF THAT STUDY ARE SHOWN IN TABLE I:

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TABLE I (IN BILLIONS OF DOLLARS)

YEARS	1965	1966	1967	1968	1970
--			HYPOTH-	HYPOTH-	
--			ESIS A(1	ESIS B	
EXPORTS (NCLUDES	4.4	5.0	5.0	5.2	4.4 5.1

PETROLEUM)

NET IMPORT SUB- 3.5 3.9 4.4 4.8 5.8 6.2

STITUTION

NEW NEW INVEST- .3 .3 .2 .6 .9 .9

MENT

SUB-TOTAL 8.2 9.2 9.6 10.6 11.1 12.2

LESS:RIMITTED -1.0 -1.1 -1.2 -1.2 -1.1 -1.1

EARNINGS

NET INCREASE OF 7.2 8.1 8.4 9.4 10.0 11.1

IMPORT-PAYMENT

CAPACITY

(1 THE DIFFERING ASSUMPTIONS UPON WHICH THE TWO HYPOTHESES
ARE BASED AND THE STATISTICS TO WHICH THOSE ASSUMPTIONS

ARE APPLIED ARE SUMMARIZED IN TABLE 5 OF AUGUST 17, 1973
REPORT TO THE COUNCIL OF THE AMERICAS.

5. ON AN INDIVIDUAL COUNTRY LEVEL, A STUDY BY HERBERT MAY
AND JOSE ANTONIO FERNANDEZ ARENA FOR THE NATIONAL CHAMBER
FOUNDATION, "IMPACT OF FOREIGN INVESTMENT IN MEXICO,"
SHOWED THAT U.S. DIRECT INVESTMENTS IN MEXICO PROVIDED
AVERAGE ANNUAL BALANCE OF PAYMENTS SUPPORT TO THAT COUNTRY
OF MORE THAN DOLS 1.5 BILLION DURING THE PERIOD 1965-68.

6. TABLE II IS TAKEN FROM PART II OF THE AUGUST 1974
ISSUE OF THE DEPARTMENT OF COMMERCE PUBLICATION, "SURVEY
OF CURRENT BUSINESS." IT PROVIDES A COMPARISON BETWEEN
US DIRECT INVESTMENT INFLOWSTO AND REMITTANCES FROM
LATIN AMERICA AND MAY BE THE SOURCE OF THE CONFUSED
DISPARITY CITED BY LABOR DELEGATES.

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TABLE II - U.S. DIRECT INVESTMENT IN LATIN AMERICA, 1966-
1973 (IN MILLIONS OF DOLLARS)

YEAR	NET CAPITAL --- OUTFLOWS	REINVESTED EARNINGS 1	BALANCE OF PAY- MENTS INCOME 2
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1966	307	343	1,113
1967	296	211	1,190
1968	677	358	1,218
1969	392	376	1,277
1970	578	442	1,057
1971	691	399	1,130
1972	300	732	967
1973	673	1,028	1,622

1. REPRESENTS A U.S. REPORTER'S SHARE IN THE REINVESTED EARNINGS OF ITS FOREIGN-INCORPORATED AFFILIATES.

2. COMPRISED OF INTEREST, DIVIDENDS, AND BRANCH EARNINGS. PETROLEUM BRANCH EARNINGS HAVE BEEN REVISED AS DESCRIBED IN THE TECHNICAL NOTES.

7. ANOTHER COMMON ANALYTICAL MISTAKE IN COMPARISONS OF

INTERNATIONAL CAPITAL FLOWS ARISES FROM THE UNDISCRIMINATING COMBINATION OF ROYALTIES AND FEES WITH REMITTED INTEREST, EARNINGS, AND DIVIDENDS. MANY EXPERTS MAINTAIN THAT THE FORMER SHOULD BE TREATED AS PAYMENTS FOR SERVICES RENDERED AND AS SUCH MUST BE TREATED IN THE SAME WAY AS PURCHASES OF IMPORTED INTERMEDIATE PRODUCTS, RAW MATERIALS, AND EQUIPMENT. FEES AND ROYALTIES ARE NEVERTHELESS US BALANCE OF PAYMENTS RECEIPTS RELATED TO FDI. FOLLOWING ARE DEPARTMENT OF COMMERCE FIGURES (SAME SOURCE) FOR RECEIPTS OF FEES AND ROYALTIES FROM LATIN AMERICA, 1970-1973: (AMOUNT IN MILLIONS OF DOLLARS)

1970	1971	1972	1973
318	335	325	361

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7. CONGF*(:M..JF*

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